

Message Text

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ORIGIN PM-07

INFO OCT-01 NEA-10 ISO-00 SS-20 NSC-10 IGA-02 L-03 ABF-01

CIAE-00 INR-10 NSAE-00 RSC-01 OMB-01 AID-20 EB-11

MC-02 H-03 PRS-01 /103 R

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S/S - MR. BARNES

----- 118035

P 140208Z NOV 73

FM SECSTATE WASHDC

TO AMEMBASSY ANKARA PRIORITY

INFO DOD/DSAA

DEPT TREASURY

C O N F I D E N T I A L STATE 224457

TREASURY FOR OMB

E.O. 11652: GDS

TAGS: MASS

SUBJECT: FY 1974 CREDIT ASSISTANCE FOR TURKEY

1. YOU ARE REQUESTED TO PRESENT USG PROPOSAL FOR PROVIDING AN INITIAL \$30 MILLION FINANCING AS FIRST TRANCHE OF CREDIT REQUIRED IN US FY 1974 TOWARD PAYMENT OF BILLINGS ON F-4 PROGRAM. THIS SHOULD BE DONE IMMEDIATELY SO THAT WE CAN DISCUSS THIS RATHER COMPLICATED MATTER HERE IN WASHINGTON WITH AMB ESENBEL, HOPEFULLY 48 HOURS AFTER YOU HAVE COVERED THE SUBJECT WITH GOT.

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2. IN AUGUST 1972, GOT AND USG ENTERED INTO MEMORANDUM OF UNDERSTANDING FOR PURCHASE OF F-4 AIRCRAFT. THAT PROCURE-
MENT WAS CONCLUDED UNDER A DEPENDABLE UNDERTAKING ARRANGE-
MENT WITH INTENT BY USG, SUBJECT TO CONTINUED LEGISLATIVE
AUTHORIZATION AND SUFFICIENT APPROPRIATIONS, TO PROVIDE

ON A MULTI-YEAR BASIS FMS CREDITS IN THESE AMOUNTS:

FY 1973 UP TO \$20 MILLION
FY 1974 UP TO \$75 MILLION
FY 1975 UP TO \$75 MILLION
FY 1976 UP TO \$7 MILLION

\$20 MILLION IN DIRECT FMS CREDIT WAS PROVIDED IN FY 1973
AND HAS BEEN UTILIZED.

3. CURRENTLY, WE ARE STILL WITHOUT FY 74 SECURITY ASSISTANCE LEGISLATION. HOWEVER, IT IS NECESSARY NOW TO ENTER INTO A CREDIT ARRANGEMENT, UTILIZING THE CONTINUING RESOLUTION AUTHORITY WE DO HAVE, WHICH WILL PERMIT GOT TO FULFILL ITS FINANCIAL OBLIGATION ON BILLINGS NOW DUE AND COMING DUE DURING NEXT FEW MONTHS. THESE ARRANGEMENTS ARE SOMEWHAT DIFFERENT, BUT THEY DO NOT AFFECT 4.875 PERCENT INTEREST RATE AGREED IN AUGUST 1972.

4. THERE IS ENOUGH CRA AVAILABLE TO PERMIT USG TO OFFER \$30 MILLION IN FMS FINANCING AT THIS TIME. THIS \$30 MILLION IS BEING OFFERED THROUGH A COMBINATION OF \$12 MILLION OF PRIVATE CREDIT AND \$18 MILLION OF DIRECT FMS CREDIT. IT IS NECESSARY TO INCLUDE \$12 MILLION OF PRIVATE CREDIT, WHICH IS GUARANTEED BY USG, SIMPLY BECAUSE TOTAL NEW OBLIGATIONAL AUTHORITY PROVIDED FOR FMS CREDIT PROGRAM UNDER CRA IS INSUFFICIENT TO COVER ALL FMS WORLDWIDE CREDIT REQUIREMENTS. FINANCING WITH PRIVATE CREDIT UTILIZES APPROXIMATELY 25 PERCENT AS MUCH NOA AS DIRECT CREDIT.

5. AS A FIRST STEP, GOT WILL SIGN AN INTERIM CREDIT AGREEMENT WITH USG TO ESTABLISH OVERALL TERMS FOR ENTIRE \$30 MILLION. USG WILL THEN GO OUT ON COMPETITIVE BIDS FOR \$12 MILLION PRIVATE LOAN AND WHEN SECURED, GOT WILL SIGN A \$12 MILLION PRIVATE LOAN AGREEMENT WITH A U.S. BANK
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AND AN \$18 MILLION DIRECT FMS CREDIT AGREEMENT WITH USG; SIMULTANEOUSLY THE INTERIM CREDIT AGREEMENT WILL BE RESCINDED. KNOWING THAT INTEREST RATE ON PRIVATE LOAN WILL BE IN EXCESS OF 4.875 PERCENT, INTEREST RATE ON DIRECT FMS CREDIT WILL BE ADJUSTED SO THAT AVERAGE RATE FOR ENTIRE \$30 MILLION OF COMBINED PRIVATE AND USG CREDITS WILL AVERAGE 4.875 PERCENT.

6. TERMS OF INTERIM CREDIT AGREEMENT: INITIALLY AN INTERIM CREDIT AGREEMENT WILL BE SIGNED BETWEEN GOT AND USG FOR A \$30 MILLION CREDIT OF 10 YEARS DURATION. IT WILL PROVIDE FOR AN ANNUAL INTEREST RATE OF 4.875 PERCENT. PRINCIPAL WILL BE REPAYED IN 16 SEMI-ANNUAL PAYMENTS, APPROXIMATELY EQUAL, COMMENCING NOT LATER THAN JANUARY 1,

1976. INTEREST WILL BE PAID EACH JANUARY 1 AND JULY 1 ON THE OUTSTANDING BALANCE, COMMENCING JULY 1, 1974. DISBURSEMENT PERIOD OF AGREEMENT CEASES 2 YEARS FROM SIGNATURE.

7. TERMS OF PRIVATE CREDIT AGREEMENT: A \$12 MILLION CREDIT AGREEMENT WILL BE CONCLUDED BETWEEN THE GOT AND A PRIVATE U.S. LENDER OBTAINED THROUGH THE TREASURY COMPETITIVE BID PROCEDURE. UNDER THIS PROCEDURE, TREASURY

USES ITS GOOD OFFICES TO CONDUCT ON BEHALF OF GOT AN ARM'S LENGTH COMPETITIVE BIDDING AMONG U.S. LENDING INSTITUTIONS TO SELECT ONE WHICH IS WILLING TO LEND FUNDS TO GOT AT FIXED INTEREST RATE FOR FIXED PERIOD OF TIME UNDER SPECIFIED CONDITIONS. INTEREST RATE WILL DEPEND UPON THE RESULTS OF THE BIDDING. TERM OF LOAN WILL BE 5 YEARS INCLUDING A TWO YEAR GRACE PERIOD. DISBURSEMENT PERIOD WILL BE ONE YEAR FROM SIGNATURE OF LOAN. USG WILL PROVIDE FULL GUARANTY FOR PRINCIPAL AND 60 PERCENT OF ONE YEAR'S INTEREST. COMMITMENT FEE WILL BE 1/4 OF ONE PERCENT ON THE UNUTILIZED BALANCE AND WILL BE PAID BY THE GOT. GUARANTY FEE WILL BE 1/4 OF ONE PERCENT ON THE MAXIMUM USG LIABILITY AND WILL ALSO BE PAID BY GOT. PRINCIPAL AND INTEREST DUE DATES, AS APPLICABLE, WILL COINCIDE WITH THOSE OF THE INTERIM CREDIT AGREEMENT.

8. TERMS FMS DIRECT CREDIT AGREEMENT: AN \$18 MILLION CONFIDENTIAL

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CREDIT AGREEMENT WILL BE CONCLUDED BETWEEN GOT AND USG. INTEREST TO BE PAID TO USG WILL BE AMOUNT REMAINING ON SCHEDULED PAYMENT DATES AFTER INTEREST PAYMENTS DUE TO PRIVATE LENDER HAVE BEEN CALCULATED. TERM OF LOAN WILL BE 10 YEARS (INCLUDING A TWO YEAR GRACE PERIOD). DISBURSEMENT PERIOD WILL BE SAME AS INTERIM CREDIT AGREEMENT. PRINCIPAL AND INTEREST DUE DATES, AS APPLICABLE, WILL COINCIDE WITH THOSE OF THE INTERIM CREDIT AGREEMENT. DISBURSEMENT PERIOD OF AGREEMENT CEASES 2 YEARS FROM SIGNATURE.

9. SINCE THIS TYPE OF MIXED FINANCING IS NEXT STEP IN TRANSITION FROM MAP AND WILL BE NEW TO GOT, IT WILL BE NECESSARY FOR EMBASSY TO EXPLAIN MECHANICS, AS WELL AS PURPOSE, OF INCLUDING PRIVATE CREDIT ALONG WITH DIRECT FMS CREDIT. WHILE NET EFFECT OF INTEREST COST OF CREDIT FOR MIXED PACKAGE IS AS IF CREDIT HAD BEEN 100 PERCENT DIRECT FMS, IT DOES REQUIRE GOT TO SIGN A LOAN AGREEMENT WITH PRIVATE U.S. BANK AND TO PAY SMALL COMMITMENT AND GUARANTEE FEES CONNECTED THEREWITH. AMOUNT OF COMMITMENT FEE DEPENDS UPON HOW LONG PRIVATE CREDIT IS NOT UTILIZED. SINCE ENTIRE DRAWDOWN OF PRIVATE CREDIT IS EXPECTED WITHIN DAYS AFTER SIGNATURE, COMMITMENT FEE SHOULD BE

LESS THAN \$1,000. GUARANTY FEE IS A LEGISLATIVE REQUIREMENT AND IS PAID BY PRIVATE BANK TO USG FOR GUARANTY PROVIDED BY USG TO BANK. PRIVATE BANK THEN PASSES COST ON TO BORROWER. THAT COST WILL BE 1/4 OF ONE PERCENT OF USG OBLIGATION, WHICH WILL BE \$12 MILLION PLUS 60 PERCENT OF ONE YEAR'S INTEREST ON THAT AMOUNT. GUARANTY FEE IS ESTIMATED AT LESS THAN \$32,000, WITH GOT BEING REQUIRED TO PAY THIS FROM ITS OWN RESOURCES AT TIME USG AND PRIVATE BANK SIGN GUARANTY AGREEMENT.

10. A FEW DAYS AFTER EMBASSY HAS DISCUSSED THIS FINANCING PROPOSAL WITH APPROPRIATE GOT PERSONNEL, AMBASSADOR ESENBEL WILL BE BRIEFED HERE. NECESSARY DOCUMENTS ARE NOW BEING DRAWN. THESE INCLUDE: A. INTERIM CREDIT AGREEMENT; B. PRIVATE LOAN AGREEMENT; C. DIRECT FMS CREDIT AGREEMENT; AND D. GUARANTY AGREEMENT BETWEEN USG AND PRIVATE LENDER. COPIES OF THESE WILL BE FORWARDED WITHIN 10 DAYS.
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11. USG WOULD LIKE TO COMPLETE DISCUSSIONS AND HAVE INTERIM CREDIT AGREEMENT SIGNED WITHIN NEXT THREE WEEKS. HOPEFULLY, GOT WILL AUTHORIZE AMBASSADOR ESENBEL, OR SOME OTHER GOT OFFICIAL, TO SIGN THESE AGREEMENTS IN WASHINGTON ON BEHALF OF GOT. NEXT, TREASURY WOULD PUBLISH NOTICE IN FEDERAL REGISTER INVITING BIDS FROM PRIVATE BANKS FOR \$12 MILLION LOAN TO GOT. ABOUT ONE MONTH IS REQUIRED TO SOLICIT BIDS AND SELECT PRIVATE LENDER. PRIVATE LOAN WOULD BE SIGNED BY GOT REPRESENTATIVE AND LENDER. NORMALLY, THIS IS DONE IN WASHINGTON. GOT AGAIN WOULD HAVE TO DESIGNATE SOMEONE TO SIGN ON ITS BEHALF AND TO PROVIDE A DOCUMENT FORMALLY CERTIFYING HIS AUTHORITY TO SIGN ON BEHALF OF GOT. USG AND LENDER WILL THEN COMPLETE GUARANTY AGREEMENT. FINALLY, GOT AND USG REPRESENTATIVES WILL SIGN DIRECT FMS CREDIT AGREEMENT. DRAWDOWNS AGAINST CREDIT CAN THEN COMMENCE AND I

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Message Attributes

Automatic Decaptioning: X
Capture Date: 11 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY ASSISTANCE, MILITARY AIRCRAFT, MILITARY SALES, MILITARY EQUIPMENT LOANS, MILITARY CREDIT, BANK LOANS, PRIVATE LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE224457
Document Source: ADS
Document Unique ID: 00
Drafter: TREAS:CCCROSSWHITE/DOD:JHOENIG/PM/SAS:DJJAMES
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731167/abqcejvi.tel
Line Count: 200
Locator: TEXT ON-LINE
Office: ORIGIN PM
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 08 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08-Jan-2002 by boyleja>; APPROVED <07 MAR 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FY 1974 CREDIT ASSISTANCE FOR TURKEY
TAGS: MASS, TU
To: ANKARA INFO DOD DSAA
DEPT TREASURY
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005